

## COMMITTEE ON FINANCE

**April 12, 2004**

**5:30 PM**

Mayor Baines called the meeting to order.

Mayor Baines called for the Pledge of Allegiance, this function being led by Alderman Forest.

A moment of silent prayer was observed.

The Clerk called the roll.

Present: Aldermen Roy, Gatsas, Guinta, Sysyn, Osborne, Porter, O'Neil  
Lopez, DeVries, Garrity, Smith, Thibault (late), Forest

Messrs: Kevin Clougherty, Dr. Michael Ludwell

Mayor Baines addressed Item 4 of the agenda:

Discussion of proposed legislation regarding interest rate swap agreements and other similar agreements by the City of Manchester.

Kevin Clougherty, Finance Officer, stated over the past couple of meetings the Board has asked us to take a look at refinancing abilities or markets that might help the City with it's current budget position. One of things that has come to our attentions from a number of underwriters is the opportunity to do not just your traditional refinancing but to do something called an interest rate swap. In order to do a swap you'd have to have special State legislation enacted. Some of the Board members will remember that we got special legislation to do a swap for the Airport and that worked out very well. So what you have in front of you is some draft language we would propose go up to the State, if the State were able to give

us authority to change the statutes in a timely manner, and we're able to get a resolution passed by this Board, we would take advantage of the markets as they currently exist and try to do some type of a swap. Provided that such an arrangement meets the rules of prudence. We're not going to go out and do one of these just for the sake of doing it, we want to make sure that we're not creating problems that we're trying to address long term solutions here, so even if it passes the State and we get a resolution passed on here, if the market is not right, there's no guarantee that we'll go ahead and do it. It's just another option that we would have.

Alderman Lopez asked Kevin can you just give us sort of a sample of what we're talking about. I don't see a spreadsheet or how this thing would really work because I just got this document.

Mr. Clougherty replied stated I made a couple of copies of some things off from some textbooks here that you can take a look at that explains in general what a swap is. There are different types. You can do them swapping interest rates, you can do them based on currency arrangements, there's a number of ways that you can set them up. They are fairly sophisticated, you've to make sure that you've got a good counterparty involved with you. What happens is, say for example the City had bonds outstanding at a six percent fixed rate and you were able to get an investment bank that met criteria, because the investment banks have to be graded in order to do this, so they'd have to have a special division of the investment bank that had a superior credit rating set aside specifically to be what's known as a counterparty. We're in contract with the counterparty and if we're at six percent they might say all right we'll allow you a fixed rate down to five percent, and what they're betting is that the rate is actually going to go lower than that in one circumstance. So the City benefits because we get the difference between six and five, and they're hoping that we continue to pay them their fixed rate of five but if

the actual rates go lower than that then they've made some money. So there's all different ways that it can happen and you have to be careful when you get into them, as I said they are not uncomplicated, but the materials I handed out give you some basic ideas to how these things work.

Mayor Baines stated the savings is quite significant over the term of the bond.

Mr. Clougherty stated as with refinancings, if you hit right the market, they can be considerable. But again, it has to be the right market and we have to make sure that you're entering into an agreement with a legitimate counterparty.

Alderman Osborne asked would this be in the same amount of the timeframe?  
The timeframe is the same?

Mr. Clougherty answered in order to do this, what this what this is is legislation, a proposal for legislation, that would enable the City to do swaps. If the legislation passed, then we'd have to come back before the Board with a bond resolution to do a swap, just as we do for any of the capital projects. It would be introduced at a regular meeting and then it would be carried over to a second meeting and it would take a vote of 10 of the Board to approve it.

Alderman Shea stated we have one Senator here and I'd be interested to see what the process is and what is necessary in order for this to be passed by the legislature, if in fact it is possible to be passed. I'm not sure if there's some sort of a way of doing this that would help us in terms of what was just said the timeframe and things like that.

Alderman Gatsas responded the opportunity would be to find a piece of legislation that may be in Finance, attach an amendment to it, move it through the Senate and look for a Committee of Conference with the House. You may a problem in the House because this had not had a public hearing. But that's not to say that amendments haven't gone forward from either the House to the Senate or from the Senate to the House without a public hearing.

Alderman Shea asked and a timeframe if I may? Could it be done in this session?

Alderman Gatsas answered it could be done in this session.

Alderman Gatsas asked Kevin, these are not tied in any way to derivatives?

Mr. Clougherty answered they are derivatives.

Alderman Gatsas asked are you doing derivatives on shore or off shore?

Mr. Clougherty answered these would be on shore, Alderman, but again, the potential is to do them off shore. For example, you could do an interest rate swap as any cities and towns and states have done where the interest rate involved is LIBOR, the London Interbank Offered Rate. So there's a lot of different ways that you can do them.

Alderman Gatsas asked can you explain to my colleagues the risk of derivatives.

Mr. Clougherty replied well I think the biggest risk with derivatives, or the most notable risk with derivatives, was Orange County and the fact that the Treasurer there was investing in some things that he shouldn't have been investing in. They were derivatives and they were very volatile. And as I stated earlier, these are not

uncomplicated deals. But I think over the years people have learned that derivatives can play a price in a portfolio as long as they are managed and as long as they are structured properly. We don't intend to go out and do something that's irresponsible or imprudent. Just because we have the authorization, we still have to come back and justify the savings and the mechanics and the market also over the last number of years has gotten very in touch with derivatives and has been policing them much more than they were at the time of the Orange County problem.

Alderman Gatsas asked can you give me a percentage in risk factor of derivatives?

Mr. Clougherty replied I can't Alderman. There are risky. They are certainly riskier than your plain vanilla refinancing. As I have explained, this is much more sophisticated, but the risk that you encounter is usually two parts. One is choosing your counterparty. The risk associated with a counterparty a number of years ago was substantial. Now the market has policed itself under Sarbanes-Oxley and others in addition to that to make sure that all of these counterparties are individually rated and that the documents underlying their submissions to the SEC are much different than they have been. That's not to say that they aren't risky, they are.

Alderman Gatsas asked can you tell me the difference of risk between offshore and onshore?

Mr. Clougherty answered it depends, Alderman, on the individual swap agreement. There's not an overall benchmark or monitoring. It depends on how each individual agreement is structured. Certainly if you have somebody that's in an offshore agreement that has not done the proper research or has not got a bond

counsel that's done those, either in the State or local level and is not familiar with them, then that's a very risky opportunity for that town.

Alderman DeVries stated I think you've touched upon the credit enhancement portion of there's also liquidity agreements and I was wondering if you could educate me on how that would come into play.

Mr. Clougherty responded when we've done liquidity agreements, we've bid that out and what we make sure is that you're looking in advance. It depends on what your portfolio is structured like, Alderman. If you're a utility, you may want to have some variable rate exposure in your portfolio to balance off all of the fixed rate and take advantage of some of those swings. And that's advisable and acceptable by the markets. How you want to provide for that arrangement and take liquidity of your bonds and call positions and put positions, all those things vary by individual transactions. We, for the most part, when we are doing arrangements for trustees, and I assume that's what you're talking about, those are bid and we make sure and bond counsel makes sure that we're going with experienced trustees that have worked with derivative products and do have that background. You have to make sure that the people you're dealing with are knowledgeable. You're not going to be able to do that with...and that's why it's probably not advisable for small towns to be doing this. But if you're going to be dealing with the larger banks in the country that have experience dealing with these because you've got a lot of cities and states of larger size that are dealing with the all of the time, you can get them done but you have to be careful.

Mayor Baines stated tonight all we're asking is support for the legislation to allow us to do this at an appropriate time and then there would be a whole vote and review of it at that time to whether we went forward.

Alderman DeVries asked we're going forward with this on the advice of bond counsel? With the recommendation of bond counsel?

Mr. Clougherty answered right. We have talked for a number of years about how the City really hamstrung by just having the same bond authority as smaller towns and at this point in time it seems like given the markets the way they are, that the opportunity has arisen so we have had this drafted by Ropes and Gray, our bond counsel, and it was reviewed by Palmer and Dodge, which is the State's bond counsel. That's what we're forwarding. And we understand they'll be a lot of discussion at the State because are they going to do something just for the City or are they going to do something for towns and there's no guarantee that we can get this passed or get it passed in a timely fashion so that we can structure something for this budget session. But over the long haul it will be better for the City to have this array of opportunities than to be as restricted as we are right now.

Alderman Porter stated Your Honor, I have no problem in going along with allowing the City to do it under the right circumstances, but I'm sitting here, I'm hearing terms like onshore, offshore, derivatives, counterparties and so forth. Kevin, how would I educate myself short of enrolling at Bentley? Do you have anything in the form of a pamphlet or anything that I could kind of see numerically how this might work?

Mr. Clougherty replied what we would want to do is pull together some information. We understand we're coming in doing this tonight and that there hasn't been a lot of notice, but we would like to set up something with our bond counsel and financial advisors so that perhaps at the Committee on Accounts we could start there and do a presentation for all of the Aldermen and walk you through what they are and explain how this works so that when and if this passes,

we come back with a resolution you'll feel comfortable knowing what they are and what we're talking about with all of the terminology you have to learn.

Alderman Osborne asked Kevin, in general, which way has been safest? Onshore or offshore?

Mr. Clougherty answered it really varies by individual transactions. I wouldn't make a generalization. That's a question that when we have our financial advisor come in we'll certainly gather some of the information that's been asked here tonight so you have those percentages and see if they're in a position where they deal with them more frequently than the City does, obviously. They could perhaps give you a better answer on that than I would tonight.

Alderman Roy stated Kevin, you mentioned that this was done in the past for the Airport. Could you explain any differences between this legislation and what was done at that time by this Board?

Mr. Clougherty answered my recollection is that it was basically the same legislation but I'll go back and check that and I'll let you know.

Alderman Roy stated just to reiterate from what you said to Alderman DeVries, bond counsel approves of this?

Mr. Clougherty answered they've drafted it.

Alderman Smith stated this has to come back to the full Board anyway and it needs 10 votes.



Alderman Smith moved that the proposed legislation be sent to the legislature.

Alderman DeVries duly seconded the motion. Alderman Gatsas requested a roll call. Aldermen Guinta, Sysyn, Osborne, Porter, O'Neil, Lopez, Shea, DeVries, Garrity, Smith, Thibault and Forest voted yea. Alderman Gatsas abstained. The motion carried.

Mayor Baines addressed Item 5 of the agenda:

Mayor Baines advises that the purpose of the meeting is continuing discussions relative to the FY2005 School District budget.

Mayor Baines stated the School Board is meeting at 7:30PM this evening so I need to be there and there will be discussion in terms of some direction for the Superintendent by the School Board as to whether or not he is going to be sending out pink slips, as we know them, or not sending them out, and the number that he would have to send out regarding a potential budget that may be adopted. We can not adopt a budget tonight and we're not asking you to do that. That can not occur until after there's been a public hearing, which is scheduled for next Monday. So what I hope is that we can come out of here with some consensus this evening about what this Board may or may not be willing to support, to give some direction to the School Board because they are required to notify the teachers by April 15<sup>th</sup>. So that's the purpose of this discussion and I would ask for discussion or questions by members of the Board at this time.

Alderman Gatsas moved to table this item.

Mayor Baines stated I'm not accepting any motions at this time.

Alderman Gatsas stated you just accepted mine.

Mayor Baines stated I did not accept a motion. Dr. Ludwell just give an indication if we don't have this discussion tonight what kind of a situation you'll be in.

Dr. Michael Ludwell, Superintendent of Schools, stated from my perspective a very serious situation. I would anticipate in the neighborhood of 75 positions being recommended to the School Board in approximately two hours. Probably holding off on filling an additional 40 to 45 positions that are currently vacant because of retirements, etc. until we have some conclusion to the budget system.

Alderman Gatsas moved to table this item. Alderman Lopez duly seconded the motion. Alderman Gatsas requested a roll call.

Dr. Ludwell repeated I think we are facing a very serious situation. Obviously I think everyone in the room is aware of the legal constraints we have relative to April and contractual, relative to April 15<sup>th</sup>. Without direction from this body the administration will be recommending to the School Board that we not renew approximately 75 positions. In addition to that, we will hold off on filling about 45 positions currently vacant because of retirements until we have conclusion to the budgetary process.

Mayor Baines called for the roll call vote on the motion. Aldermen Lopez, Shea, DeVries, Garrity, Thibault, Forest, Gatsas, Osborne, and Porter voted yea.

Aldermen O'Neil, Smith, Roy, Guinta and Sysyn voted nay. The motion carried.

Mayor Baines stated Alderman Garrity and Alderman Guinta asked for some time to make some comments or recommendations regarding the budget.

Alderman Garrity stated Alderman Guinta and I flipped a coin and he's going to do the presentation and I'll have some comments afterwards.

Alderman Guinta stated during the Mayor's budget presentation he emphasized the importance of a responsible budget in the City of Manchester, one that would not reduce emergency City services or school services. He also invited the Aldermen to identify and cost saving measures throughout the budget process hoping that we could identify some reductions in expenditures. Keeping those principles in mind, Alderman Garrity and I have offered the following budget proposal and I'm going to ask for a motion this evening that the Board include the proposal in the future public budget hearings in accordance with Section 6.04 of the City Charter. We hope and encourage the public to speak on behalf of this budget at the budget hearing on the 19<sup>th</sup>. We hope that the Mayor, the Aldermen, the School department, the City department heads, and anybody else who interest in the budget process, come forward and provide us with their statements or positions regarding this proposal. We feel that the proposal accurately reflects four important components of budgeting. The regional economic concerns expressed by the Mayor during his budget address, the core needs of the City, support our educational system, and sentiments of the Manchester taxpayers. Finally we believe that this budget is a responsible budget that focuses on expenditure efficiency that requires the Aldermen to make difficult spending decisions, however, we feel it is fair and that it properly reflects what the City is able to afford at this time. The proposal reduces the Mayor's spending requests by \$7 million and reduces his tax increase from 8 percent to 2.79 percent. We would also note that 2.79 percent is approximately 1 percent higher than the CPI. Two things I'd like to identify; first what the budget does not require. It does not require an increase or an inflation of any revenue projections, it does not require the use of any rate stabilization funds or rainy day funds, it does not require any City fee increases, it does not require layoffs, excluding consolidation proposals, it does not require City services to be reduced in any area, and it does not include the City bag and tag program. Some of things that this budget does provide and require by this Board and other boards, are essential in order for this or

modification of this blueprint to pass. It requires that the Aldermen, the School Board, and Union representatives apply a team approach to allocating general fund revenues, it requires all three to embrace future efficiency standards, it provides a mechanism allowing moderate raises for every City employee in the City, it funds each School program requested by the School Board, it increases the number of fire fighters in the City, and it also requires that this Board take up the issue of consolidation. Because consolidation can not be achieved through the budget process, you would have a parallel process started immediately and completed by June 8<sup>th</sup> for adoption of this or any form of this budget. I've attached a list on the School side and the City side in what areas we identify to come to the 2.79 percent. On the School side it affects school steps and COLA's, maintenance budget, expendable trusts, health deductions, finance consolidation resolving paycheck issue procedures and professional services. On the City side it requires consolidation of Highway, Parks and Traffic, it requires all City departments to manage their portion of the City retirement, it addresses fleet management and the modernization of fleet management, it requires finance consolidation, removes the three requested positions in the Mayor's budget for the Assessor's office and graffiti removal, it attempts to modernize the overtime issue in the Fire Department by reducing their request by \$200,000 but increasing the number of fire fighters by three, and it implements a hiring freeze. It also level funds the Manchester Transit Authority request. A couple of points I would like to reiterate; number one it is \$7 million difference between this proposal and the initial proposal by the Mayor. It does account for a 1.7 – 1.8 percent CPI index, it includes a .04 [percent] inflation rate since 2002, and it determines the School tax by multiplying the total City valuation by 3.24 [percent]. I would certainly entertain any questions from the Board.

Alderman Guinta moved to refer his and Alderman Garrity's budget proposal to public hearing. Alderman Garrity duly seconded the motion.

Alderman Lopez stated I think before we send it to public hearing we need to have a little bit more detail on a lot of this. I think that you're health deductions for example, unless you have another document, I don't see anything about what type of health deductions...or do you just want to talk about health deductions. That's a question.

Alderman Guinta replied the health deduction is achieved through the contract negotiation process. So I didn't identify a specific dollar amount. I thought that it would be more appropriate in non-public. But it's achieved through contract efficiency.

Alderman Lopez stated I realize that, but you're making a budget expenditure savings list, a laundry list, and is there any detailed explanation on school COLA for example or what numbers you're talking about for school steps, maintenance budget, how much money you want to take out of the maintenance budget or are we just supposed to say...these are all savings ideas, but I would be more comfortable trying to pick out the information provide. Or do you want us to provide a solution to your savings?

Alderman Guinta replied no. I have justification for each saving item. The school steps and school COLA are something that I think we need to talk about in non-public session, the maintenance budget, I can give you a specific example. It level funds at \$.65 cents.

Mayor Baines stated I don't think they should be discussed in non-public session if they're part of the budget process and if an Alderman wants to move that unilaterally we would direct the Chief Negotiator to negotiate the elimination of all steps and all COLA's, we should do it and go on record so everybody knows exactly what we're doing here and I support that. I would like to know more

about maintenance budget costs, we're engaged in a \$105 million expansion of our schools, we're trying to incrementally increase the amount of money for maintenance so we don't fall into neglected maintenance, consolidations as you know I support and I think there's an irony that we're getting proposals, no disrespect, maybe you've changed your minds and are willing to support consolidations. I think there are some things here, but if we're eliminating fire fighting overtime, well we need to hear from the Chief, what that will affect. But I'd say take a vote, on the steps or the COLA's and everything. I would like to hear it.

Alderman Lopez stated I think it's very important, Alderman Guinta, you send this to a public hearing and sound bites sound okay, but the details in the pudding are not there that where we have a logical situation. Let's say you go to public hearing and everybody says yes, cut the COLA, cut the steps, cut this, cut that, but we don't have any numbers, we have nothing to go by. And so I'm willing to work on anything, but I still think just sending this to public hearing without knowing the details in the pudding, say to speak, doesn't make sense.

Alderman Guinta stated I'm happy to identify how we got to the number in COLA's and steps on the City and School side so long as...

Alderman Lopez asked do we have a print out document on that?

Alderman Guinta stated I didn't prepare a document to hand out on the advice of...

Mayor Baines stated well I think there should be document...and the other part of it. We had a negotiator...I won't talk about the substance of a meeting, we had a meeting with the Chief Negotiator to give directions on negotiations and we didn't

give him any directions to negotiate the elimination of steps and COLA's. We gave him some other...

Alderman Lopez stated one last thing. I remember this Board telling me and I think it was the Chairman of the Board at that time, Alderman O'Neil, put everything in writing so we can understand what we have. I can't sanction any one of these unless I know exactly what the final details are on each one.

Alderman Guinta stated let me reiterate. I'm not looking for a vote on this budget. What I'm looking for us for a referral to committee. I'm happy to get into greater detail on each particular issue if that's what the Board would like. I can tell you where we are numbers wise. From the School perspective, what we tried to do was ensure that no layoffs would occur. Education is important. This number we think is much reflective from a contract standpoint of what we can afford, but it doesn't eliminate any teachers.

Alderman Lopez asked shouldn't this be referred to the Finance Committee then?

Mayor Baines interjected well that's where we are? We're in Finance. The only thing and I did have some brief conversations with the Chief Negotiator with what was happening, and with the City attorney, and we're in negotiations. Negotiations occur over a table. They don't generally occur by edict of a board and we're entering into good faith negotiations with all of our unions right. We need to be aware of that.

Alderman Smith stated we do have contract obligations and the obligations involved we're talking about with the school steps, the cuts and so forth, but I just want you to realize is as far as I'm concerned any cut in a proposed budget towards school will have dire consequences as well as the Superintendent just

spelled out. We realize that we have a debt deficit of \$5 million that the School Department has inherited and I really think that it was a fair proposal, the Mayor's budget. We should look for less painful cuts because there are 18,000 students in our system right now, they have mothers and fathers, so you're saying probably 50 percent of the population in Manchester is involved in education one way or the other and I would think that we would think alternate ways to get around this budget.

Alderman Thibault stated let me just say that I was quite concerned in learning today that, and I would like a show of hands on the Board here as to how many of this Board who voted to readdress all of our Schools in the City last year or the year before, that know that in fact this posed a \$5 million problem onto the School Department. And I think that if we look at that, now we're talking about a 4 percent raise, not an 8 percent raise, so that if the people that were here when this vote was done to refurbish all of our schools, remember that the School Department today has to pick up \$5 million of that this year. I just wanted people to realize that, that some of us who were not here last year may have known that, but that is a problem that I think that we should all agree that a former board or this Board agreed to in 2003.

Alderman Garrity stated I am willing to withdraw my second. What we'd like to do tonight is just...this is a proposal. We certainly understand that there's going to be more of our colleagues coming in with budgets. If we can combine four or five budgets, take something out of one, take something out of another, that's fine. This is only a proposal; this is what it is. I will say that if the MEAB becomes a partnership in this budget, layoffs of schoolteachers are not required.



Mayor Baines stated I want to commend Alderman Garrity for his comments here because he did come in and talk to me this morning and his approach has always been let's get some other ideas on the table, recognizing that we're asking all Aldermen to look very seriously at the issue and come up with some creative ideas and I appreciate the spirit which you just made your comments.

Alderman O'Neil stated I appreciate the work of my colleagues on this, but I don't have much to go by other than a couple of bullets. Consolidation of Highway, Parks and Traffic; there can be a lot of detail to that. What do you think it's worth in a year, over a five year period, are you laying off people, is it through attrition, etc., etc. So I would very much appreciate it if they could provide in the next day or two the background information and how they reached these conclusions and if they could put a price tag towards what they think the savings are. I think that would be very helpful to us.

Alderman Shea stated I just noticed the paycheck issue procedure. Isn't that a contractual agreement that the unions would have to agree with? I don't know, but I'm just saying.

Mayor Baines asked are you talking about the every two weeks? The School District already does that. That's a problem on the City side.

Alderman Guinta stated there's a small savings on the School side. The majority of the savings is on the City side.

Alderman Shea stated don't we have under a contractual agreement would they still be entitled to receive the same, whomever, type of issuance?

Mayor Baines stated what Alderman Guinta is...

Alderman Shea interjected I realize what he's saying, but if it's a negotiated item in a present contract that unions have, you would have to negotiate that into a new contract. That's what I'm indicating.

Mayor Baines replied that's true, and the same thing will COLA's...the issue with steps and David could explain it better than I. You have existing contracts that have those steps in them. That remains in effect unless that contract is abrogated. So you would have to go back and abrogate all of those contracts with every City union. We have 16 unions. So you would have to go in and basically terminate those contracts on a certain date, because if you don't, they continue while you're negotiating. If you remember last year we settled some of the contracts nine months into the year. The Board could take a vote...in fact, if you're leaning in that direction, I'd ask for a vote tonight. If you want to authorize the City Negotiator to negotiate the elimination of the steps and COLAs, let's go on record tonight and get it done so the negotiator knows, we haven't given him very much direction. A lot of these are contractual issues.

Alderman Roy stated at this time I too would like to commend Alderman Garrity and Alderman Guinta for brining this forward. Early in the process, and I do look forward to seeing some of their backup material, but at this time I am working on a budget. I've spoken many times with the Finance Director and at this time I'd like to put the motion on the floor that we direct the Finance Department to put together what the cost savings would be to change through this negotiation the paycheck from weekly to twice a month and some of the cost savings so the Board can actually look at those as we make our decisions and also that we can give advice based on sound advice to our negotiator. Because if they're not in this round of contracts, we will not have this discussion for three more years.

Mayor Baines stated we actually don't need a motion. I'll just direct the Finance Officer to put a price associated with each one of these items and get it out to the Board as quickly as possible.

Alderman Guinta stated just a couple of things regarding consolidation. There was a question. We took the original proposal set forth by the Mayor. We didn't feel that a re-review of that proposal, if you will, would be necessary because it's sort of on the table now. To answer your question on that it is no different than the prior proposal that was given to this Board. I think we're trying to recognize a little more sentiment by Aldermen to make that change. With respect to steps and COLAs, we're not seeking to eliminate everything. We're seeking to be a little more moderate in the approach.

Mayor Baines stated but to change the step structure that was put into...

Alderman Guinta interjected I understand that it takes a vote to direct the negotiator, but a couple people I think, think in their minds that we're eliminating everything. We're not looking to eliminate everything.

Mayor Baines stated the only thing I'm saying is we have 16 contracts to settle and those of us who have been around the City long enough we all know what it's like when we don't settle contracts. And we try to settle contracts to the best interest of everyone involved, but we have a Chief Negotiator out there that's having all these meetings and at no point up until tonight, and we've had two non-public sessions discussing this as any Alderman suggested or even hinted about eliminating steps and COLAs. So that's new information so if we're inclined to do it, all I'm saying is take a vote, one way or another, so to give him some direction. Otherwise he's wasting time negotiating.

Alderman Guinta stated and that's one of the reasons we wanted to make this presentation early in the process to allow this to be used as a first step or a blueprint by which we can direct some of these changes. We're not looking too...we recognize that there's a full Board that has concerns or issues about the budget, we certainly welcome the input. All we're looking to do at this point is to open the door to looking at a new way of trying to set a budget and set tax increases in the City. So I would certainly welcome the work of the Mayor, the Mayor's office, the full Board to try to make some of these proposals come to fruition to identify some savings.

Mayor Baines stated and the way it's laid out we could take votes individually on each one of these once there's a cost factor and I would welcome that. I would also direct the City Solicitor to begin at least putting together the various Ordinances that would be needed to consolidate Highway, Parks and Traffic and financial consolidations as well, so we can be prepared. But you know you have a lot of work to do. Everything must be done by June 8<sup>th</sup>.

Alderman DeVries asked Alderman Guinta would you please what within the City retirement system you would be deleting.

Alderman Guinta answered last year we had asked the departments to manage the payment that was required by the City. We're simply asking the departments to do that again this year.

Alderman DeVries asked by what mechanism do you envision they can...?

Alderman Guinta replied the mechanisms by which each department head did it last year. Some of them had different mechanisms by which to save their percentage of the total.

Alderman DeVries stated I thought the process and you're absolutely right. We need to have some other individuals in here to support it, but they run audits that will tell them what they need to fund the system for it to remain stable. So to arbitrarily reduce that against the judgement of the professionals advising that system isn't that undermining...?

Alderman Guinta answered again, the way we paid for that line item last year, because there was a deficit by asking the department heads manage their budgets in a more efficient manner. We're not doing anything other than asking the department heads to do the same things this year.

Mayor Baines stated Mother Nature did an awful lot of cooperation with our mandates last year because we didn't have many snowstorms and that's really helped out that situation as well.

Alderman DeVries stated I'm looking at a few of the different items and I'm wondering City Clerk, let's start towards the top. There's a dramatic reduction from the 2004, the current year, that you would be asking the City Clerk to absorb. Can you explain to me how you're...?

Alderman Guinta answered sure, it's difficult to look at each specific line item and say where did you cut that department, because we didn't approach it that way. We approached it from an overall general expenditure standpoint. So when you modify on the City side COLAs and steps, you'll see the reduction in each agency or department line item. So we have not cut any person, just to use City Clerk's office as an example, we have not cut any people there. The efficiencies are A through changing the COLAs and steps and B consolidation. There's no consolidation in that department, so it strictly comes from the salary line item.

Alderman DeVries stated but if we are already hitting that department through the retirement allotment, which is a deduction from that department if you're asking them to absorb it, now you're asking them to absorb it up front a second time. Aren't you asking them to reduce it even beyond the level of funding that they had in...well you are. You're banging each department twice. You're once saying that we're expecting you to absorb somewhere else in your budget for the pension system, and we're also expecting you to reduce your budget in your salary.

Alderman Guinta responded the salary items in each department include the expectation of contract negotiations. We're placing a different number or a different figure, if you will, from what we think those contracts will be resolved at. That's where the difference is.

Alderman DeVries stated but as we just said the contractual agreements which we are obligated to require us to continue paying these steps, if we do not bring in new contracts. So by automatically reducing and taking that out of their budget, if their contract continues on, as we agreed to previously, it's a reduction in that department. So you can say it's not, but it will force layoffs of personnel unless we bring in new contracts where they voluntarily agree to do away with all of their COLAs as well as any steps that they would have been able to receive. I just don't feel that it's realistic that that is going to happen.

Mayor Baines stated and I'm going to let Alderman Guinta speak and by asking the City Solicitor to come up too, because this is why I keep...I'll come back to it again. We're in good faith negotiations right now. So if the Board is so inclined to terminate...you'd have to terminate the contracts, as I understand it at the end of June, otherwise they continue. You'd have to serve notice Tom?

Tom Clark, City Solicitor, answered yes, as I understand the law on this subject; we presently have contracts in effect, which will provide steps and other benefits through June 30<sup>th</sup>. The contracts are all being renegotiated; they are in negotiations at this point for a new contract. The law as it has been ruled on by the courts is said that status quo continues after June 30<sup>th</sup> unless you vote to terminate that contract by a certain date and I don't have the dates in front of me because I wasn't aware of that earlier today.

Alderman DeVries asked steps are continuous after June 30<sup>th</sup> unless you vote to terminate?

Mr. Clark answered continue under status quo steps continue to be paid and incurred under the lapsed contract because the terms and conditions stay in effect unless this Board takes an action to terminate those contracts.

Mayor Baines stated and what I'm saying is, is you're going to do that you should do that sooner than later so everybody understands what's going on here. Because that's where your most substantial...if there are going to be savings, and again, I haven't seen the calculations for these, that's going to be your most substantial savings. But you'd have to serve notice very soon that you're going terminate every single contract at the end of June and I'm not sure how that fits in with good faith negotiations either. But that will be issues that will probably end up in some litigation.

Alderman Shea stated I do commend the two members of the Board for their work. There's no question about it. It's a difficult procedure. I think all of our concern might be that if in fact June 30<sup>th</sup> were to come, I think that's probably the most important point, and to break it down, if we're paying a department a certain amount of money right now and no contractual agreement is reached, it would be

impossible to pay them less under the assumption that a contract would be signed later on that would require them to receive less money. In other words, I guess what I'm trying to say is, if we pay them now, to make it simple \$1,000 to operate a department, and we say we're going to give them \$900, we'll say, rather than \$1,000, and they don't sign the present contract that they have is still in void, what we're actually doing, if I'm not mistaken, is we're really not funding them at the level that they should be funded. Now I could be wrong but that's really...could you explain Frank what I'm trying to get across.

Alderman Guinta replied the salary item savings is dictated or will be determined by the date we reach contract agreements. So if this contract does not begin at the beginning of FY2005, then the savings changes. We're not looking to stop the amount of money that somebody makes per week right now, what we're looking to do is negotiate for the future and try to achieve some savings in the future.

Mayor Baines stated just to correct one thing you're saying. You're really not negotiating, you're taking a position, terminate those contracts on...by the way we've been through this in the City once before, so there's some history of doing this and it is very painful. But you're not negotiating, because once you take that action you basically stop negotiating. I don't think you'll see any negotiating taking place at all. You have to notify all of the unions by law that you're terminating the present conditions of their contract and if you want to do that, that's a vote that you go up or down on. The sooner you make the motion, in my view, the better.

Alderman Guinta moved that all unions be notified that the present conditions of their contracts are being terminated.

Mayor Baines stated I'll accept the motion.



Alderman Garrity stated this is why we brought this in early. There's going to be some discussion on it. It's only a proposal. I'm sure there will be budgets that will follow from other colleagues too.

Mayor Baines stated and I respect that and I think I've said that to you. All I'm saying is to reiterate. We're in good faith negotiations right now and I ran into David on the way to a negotiation today, we need to give him some direction soon on that issue.

Alderman Garrity stated the Board meets next week so maybe we can have a discussion before or after the Board meeting.

Mayor Baines stated okay and that might be a more appropriate time.

Alderman Lopez stated I think what makes this very, very difficult is a lot of these suggestions have been suggested in the past and the problem, I'm not saying any one of them are good or any one of them are bad, you've been going through consolidations for four years, I think, and it will probably go another four years, so you don't include everybody in consolidation here. Those are arguments that I think that needs to be taken a good look at and get true facts and we can't do that at the eleventh hour. That's always a major problem. We've said these things now for four years, every time we have a budget, and some are good ideas, but we just do not have the time. I'm willing to give eight hours a day, twelve hours a day, sit in this room because coming here once a week or twice every two weeks or once a month during a Finance Committee meeting all year long, eleven months ago, and here we are we've had two or three Finance Committee meetings and two executive board meetings. We've got to sit down and really iron this thing out and get all of the players here. Ginny's not here, the Human Resources director's not here, and other department heads are not here to look at this. And I understand

where you're going Alderman Guinta and Alderman Garrity; we have to make decisions. That's what we do here is make decisions. But until we get the facts of what the consequences are going to be, to vote something out of a contract at this time is very, very difficult for this Alderman to do that without knowing what the consequences are. The public hearing is next Monday, from what I understand, I don't think this has to go to a public hearing because it's just a budget proposal presented by two Aldermen that the Committee on Finance is going to take up, but I think there ought to be some type of procedure here that Aldermen can get together during the daytime with the right responsible staff instead of being here until midnight trying to clear our heads of what we're trying to do here. Maybe regular meetings for the next two weeks during the daytime would probably do it so that we completely understand. Now if we're really committed to try and do something with this budget and we have to give our time and energy into it, and we can not do it a one day notice.

Mayor Baines stated the only thing in all due respect to the two Aldermen, they're not asking for that they're just sort of getting some ideas out there and I think that's the spirit in which they have presented. I do have a question Alderman. Five trucks at \$60,000? What specifically are you talking about there?

Alderman Guinta answered there's an estimated saving. We're talking about garbage trucks. We'd have to change...

Mayor Baines asked is this the idea that I have promoted with the Highway Department going to a one-person truck?

Alderman Guinta answered yes.

Mayor Baines stated again, and I mentioned during the budget process that's probably something that's going to have to be phased in over time. You'd have to buy containers for every resident of the City...

Alderman Guinta stated right, there's an average savings over time, which is...

Mayor Baines interjected and Frank [Thomas] is looking at a pilot program for it.

Alderman Guinta stated which is again, why we're including it at this early stage, so we can put these things on the table and they can be individually addressed in committee.

Mayor Baines stated there was a motion to refer it to the public hearing, Alderman Garrity withdrew his second. Are you willing to do that?

Alderman Guinta asked what would we be doing then with this?

Mayor Baines stated again, it would be part of the Finance Committee's ongoing discussions. And we're encouraging other Aldermen. Alderman Roy said he's working on some things and I think others are as well and this will be just part of a whole discussion going forward.

Alderman Roy asked will we still have the backup information in dollars?

Mayor Baines stated I already said that the Finance Officer is going to get that out to you as soon as he possibly can.

There being no further business, on motion of Alderman Smith, duly seconded by Alderman Forest, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee